LGPS CENTRAL LIMITED – INTERIM TCFD REPORT

Background
Financial markets could be materially impacted by climate change and by the response of climate policy-makers. LGPS Central Limited (LGPS Central) works with the Transition Pathway Initiative, the Institutional Investor Group on Climate Change, Climate Action 100+, the Green Finance Initiative, and others, to maximise our influence on the climate agenda.

We are a public supporter of the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), and have called for its widespread adoption. We provide in this document an 'interim' TCFD Report for LGPS Central Limited. We are working with our Partner Funds to develop appropriate and future-proofed climate risk metrics and will update our TCFD Report when we have a clearer line of sight. In the meantime, we are publishing our interim report to provide clarity particularly around the governance of climate risk management within our firm.

TCFD Recommended Disclosures

Governance

Recommended Disclosure (a) Describe the board's oversight of climate-related risks and opportunities.	The Board is responsible for approving and monitoring LGPS Central's approach to climate change, as part of Board approval of the Responsible Investment & Engagement Policy (RI&EP). The RI&EP contains a specific Responsible Investment Belief on climate change, which is based on the investment beliefs of our Partner Funds. Board-level KPIs are in place for responsible investment and engagement (RI&E) and regular updates on progress are provided to the Board. RI&E, which includes climate change, is part of every LGPS Central investment product, and all product business cases are approved by the Board.
Recommended Disclosure (b) Describe management's role in assessing and managing climate-related risks and opportunities.	Day-to-day management of climate change strategy is delegated to the Investment Team, with oversight from the Investment Committee (IC) and the Chief Investment Officer (CIO). The Director of Responsible Investment & Engagement is accountable to the IC for the implementation of the RI&EP, which includes climate change. Portfolios are monitored by the IC on a quarterly basis.

Strategy

Recommended Disclosure (a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	LGPS Central's investment managers consider climate-related issues across the short-, medium- and long-term as relevant for the investment time horizon in question. Short and medium-term risks typically include policy and technology risks; medium and long-term risks include physical impact and resource availability. Risks - and risk management strategies - vary significantly by asset class. For example, policy risk could crystallise in the relatively short term, and this could impact listed equity valuations. By contrast, resource availability could materialise over the medium and longer term, and could impact real assets. LGPS Central identifies material climate-related issues through research (e.g. in building investment cases for a particular stock or in performing due diligence before an investment decision) and collaboration (notably with the TPI, IIGCC, PRI, CA100+, and LAPFF). LGPS Central has made use of the TPI Toolkit to observe climate risk management in large listed equity stocks.
Recommended Disclosure (b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning.	RI&E, which includes climate change, is included in all mandates managed by LGPS Central. For portfolios managed internally, material climate risks are factored into stock research, due diligence, and stewardship plans. For externally managed investments, our expectations are typically inserted into IMAs, LPAs, or side letters, and managers' approaches are considered before appointment and on an ongoing basis through regular monitoring. We would not appoint a fund manager were we not assured of the management of financially material climate-related risks.

Strategy (continued)

Recommended Disclosure (c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2˚C or lower scenario.	We understand the value of climate scenario analysis, but also note the limitations with current methodologies and data sets. As a first step, we used the Paris Agreement Capital Transition Assessment tool to analyse our listed equity portfolios to transition risks over several scenarios. The analyses suggest that our portfolios align well to a 2C scenario when considering power capacity and electric vehicle production (we are more aligned than 'peers' and the broad equity market), but less well aligned when considering oil production. It is partly in response to these results that we are (a) engaging heavily with oil producers, and (b) part of a working group at the IIGCC to enhance methodologies for assessing 2C alignment. *Please note that PACTA's tool requires data as of December 2017, but our portfolios incepted in Q2 2018. We have used the nearest available date, but recognise there will be some biases in the PACTA outputs, for example as a result of currency fluctuations between 2017 and 2018. Please note also that the assets included in the PACTA outputs are the sub-funds*

Risk management

Recommended Disclosure (a) Describe the organisation's processes for identifying and assessing climate-related risks.	Depending on the asset class in question, risk identification is either a bottom-up or a top-down process. For index-tracking funds (other than climate-factor funds), a top-down process is employed to identify which sectors and constituents should be prioritised for engagement. For actively managed funds, including funds of funds, a bottom-up process is employed to understand the inherent risk and any mitigants in place at a stock or fund level. Through membership and participation in CA100+, TPI, and CDP, we engage companies to improve their climate-related disclosures, and thus make risk identification more efficacious.
Recommended Disclosure (b) Describe the organisation's processes for managing climate-related risks.	LGPS Central manages climate risk in different ways according to the nature, duration, magnitude and time horizon of the risk itself. The predominant management technique is investment stewardship. For example a significant amount of LGPS Central's AUM is in passive equity funds, which are managed on a regional basis. Climate risk could affect market-wide performance – for example through carbon pricing in the EU – or could affect particular sectors within a market – for example through changes in subsidies. Our strategies are to engage policy-makers in order to promote efficient market outcomes, and to engage through partner organisations as many companies and industry bodies as possible, which collectively ought to have an improving market-wide effect. We have a proactive shareholder voting programme, and link some voting decisions to climate change analysis provided by the TPI.
Recommended Disclosure (c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	RI&E risks are defined so as to include climate-related risks. Investment risks fall within the scope of our *Investment Risk Framework & Policy,* which employs a 'three lines of defence' model. Climate risk is primarily managed in the first line of defence.

Metrics and targets

Recommended Disclosure (a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	The use of quantified metrics is under review. In undertaking this review, we value the usefulness of numerical targets but are conscious of the nascence and complexity of climate risk models, and share some concern that focussing on one particular metric or target could be overly reductionistic, or give a false impression of accuracy. We provide here the carbon footprints of our ACS listed equity funds. These funds track an index, so the carbon footprint of the benchmark is in each case the same as that of the fund.
Recommended Disclosure (b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	• Global Ex-UK Passive Equities: 232.13 tCO2e/$m revenue • UK Passive Equities: 179.34 tCO2e/$m revenue • Dividend Growth Equities: 257.24 tCO2e/$m revenue *Data from Bloomberg, as of 31/03/2019. We have used the weighted average method, as recommended by the TCFD.*
Recommended Disclosure (c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	The use of quantified targets is under review. Any targets we do set will be established in collaboration with our Partner Funds.